

The How To Guide To Raising Venture Capital

B-Hert Master Class

Workshop 06

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- *Return to Study*
- *Management Consultant to Start Ups*
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ES Group Ventures

- *Family owned \$40m VC fund*
- *Invested \$13.5M – 11 deals (80% seed)*
- *Focus - IT & T; Biotech; Mfg with tech. twist*
- *Stage of investment - seed, start-up, early expansion*
- *How many deals do we see?*
- *What % equity do we typically require?*



ES Group Ventures

- *What quantum of \$'s do we invest?*
- *Is there a minimum deal size?*
- *Do we syndicate deals?*
- *What is our core value add?*

What Do VC's Look For?

- *Compelling idea for a Product (or Service)*
- *Value proposition*
- *Market size & competitiveness*
- *Competitive advantage*
- *Management team*
- *Return & Exit*

What is the VC Process

- *Research VC's – short list*
- *Initial phone discussion*
- *Executive summary or application form*
- *Business Plan*
- *Initial Pitch & follow up meetings*
- *Term sheet*
- *Due diligence*

What is the VC Process

- *Investment*
- *Process takes 3 – 8 months*

Key Issues

- *Communications – Entrepreneurs must be consummate communicators*
- *Need to convey Credibility; Passion and Reason*
- *Know your audience*
- *Must be clear, concise, compelling, not repetitive and less is always better*
- *Bullet points, graphs, tables, diagrams*

The Pitch

- ***Desired Outcome***
 - *Get buy-in from an investment manager*
 - *Next meeting*
 - *Enter the pre-term sheet due diligence process*
 - *Term sheet (offer to invest)*

Introduction

- ***Introduce Yourself & Your Team***
 - *Should not do a presentation solo*
 - *Looking for a team representative of the SKILLS to pull off a start-up*
 - *Does the team operate like a team*
 - *If you don't have one – get one or at least acknowledge the gaps*

The Team

- There should be a clear leader
- Must be a good fit (skills, chemistry & ego)
- Industry expertise & preferably start-up/commercialisation experience
- Business expertise & financial participation
- Background of determination & achievement
- Ownership & expectations amongst stakeholders determined at outset

The Opportunity

- ***Value proposition*** - from technology to market the VOP is the missing link
 - Define what problem the innovation solves in the market place today - must be a clearly defined need
 - Communicate in a clear and compelling way that a lay person will understand - no technical jargon

The Opportunity

- Articulate why it is novel, unique or different
- *Must be compelling (customer saves lots of money & improves performance)*
- *1st minute - must be able to live & breathe your customers (a day in the customer's life)*
- Once defined & tested - becomes the business foundation

What Your Business Does

- ***Slam home what you do***
 - *One line that encapsulates your business (ie Bandwidth on Demand) – a short, pithy and highly memorable statement*
 - *The customer must have you to function – your product is essential*
 - *The customer is willing to pay*
 - *It is strategic to the customer – without it his/her business is impacted*

Market Size

- ***Give a sense to the size of the opportunity***
 - *Not macro analysts reports*
 - How big is the problem that the innovation solves? - addressable market of \$500M+?
 - Is the market growing?
 - What is the competitive environment of this market?

Market Size

- Who within that market will the innovation be sold to - target market?
- *Tell me how much the customer buys, what price, what continuing sales, is the customer typical or represents a class*
- Has there been market testing with potential customers?

Investment Highlights

- *What is your company status*
 - *Employee size (team)*
 - *Revenue size (stage)*
 - *Products status (prototype or product)*
 - *Markets served (customers)*

Agenda

- *Tells the audience that you are covering the major areas & that you will get to their questions*
 - *Industry trends*
 - *Products & markets*
 - *Competition & competitive advantage*
 - *Financials*

Industry Trends

- ***Extremely important – 5,000 ft view (not 60,000 ft view)***
 - *Presence of serious driving forces that have a good chance of continuing*
 - *Reasoning why these forces will underpin your business and why they will continue*
 - *How/why your products play into the forces*
 - *This drives customer traction*
 - *Social/Political/Economic etc*

Core Competency/Platform

- ***Sunflower Diagram***
 - *Centre of the sunflower is your core competency/technology (unique or different)*
 - *Petals are your products or markets*

Products from Customer View Point

- *How did customers do things before you (significant drawbacks – impact bottom line & strategy)*
- *How do they do things now - with you (payback in hard dollars) strengths must be measurable*
- *What the product status is – is done or nearly done; two or more applications; contrarian products; major differentiation; core technology*
- *A real live customer vignette – (no serious prospects, no money)*

Competitive Advantage

- ***Differentiation is key***
 - *Visually categorize your competitors*
 - *Must have complete understanding of who competitors are today and who could be*
 - *Rational, objective, measurable argument why you will win (usually not me to products)*
 - *Solve a compelling problem in an unconventional or unique way – build barriers to entry*

Competitive Advantage

- *Intellectual property - should be owned & controlled by the investee entity.*
- *IP - should ideally be protectable by patent in more than one jurisdiction.*
- *What are the switching costs - old to new?*
- *P.R.O.F.I.T*
 - *(Physical; Reputational; Organisational; Financial; Intellectual Property; Technological)*

Blue Sky

- *Multiple products/markets that can be leveraged from core technology*
- *R&D program – additional core technologies & services that will build barriers to entry*

Financials

- *All investors will do their own numbers from assumptions*
 - *Build from bottom up (targets by name, how many, type, no. salespeople, conversion rate, sales cycle, rebuy*
 - *Headcount, marketing and R&D plan*
 - *Reasonable & conservative*

Financials

- *Proforma revenue – 5 years*
- *1/4ly sales and net income 2 years*
- *Breakeven analysis*
- *Contribution margin with key overheads (R&D, S&M, G & A) – 3 years*
- *Industry norms!!!*

Financials

- VC's make money by selling companies - IPO or trade sale
- Ideally exit within 3 - 5 years
- Invest with potential sale targets in mind
- Target return of 5 - 10x invested \$'s within 3 - 5 years

Recap Investment Opportunity

- *One slide highlighting key points*
 - *Strong financials*
 - *Value proposition*
 - *Current compelling opportunity*
 - *Attractive market*
 - *Depth of product – competitive advantage*
 - *Team*

The Investment

- ***Close the sale***
 - *\$'s required (and offer)*
 - *Ask for commitment*
 - *Request feedback*
 - *Next steps*

Pitch Tips

- *1st four slides & delivery make or break you*
- *Slides are only a reminder/guide – make sure they flow & tell a story*
- *Use a flip book (don't rely on technology)*
- *Multiple team members speak and answer questions (have a game plan)*
- *Always have someone taking notes/comments/questions/follow up items*
- *Preparations is the key and paractise, practise, practise!!!!*

Pitch Tips

- *Tell the audience what you are going to say – say it – review what you have told them*
- *Questions*
 - *If simple answer yes/no*
 - *If complicated attempt to defer to section X*
 - *If insistent answer then return to the flow*

Reading List

- Good to Great by Jim Collins
- Built to Last by Jim Collins
- Moments of Truth by Jan Carlzon
- Jack Welch and the GE Way by Jack Welch
- Maverick by Ricardo Semler
- Leading the Revolution by Gary Hamel
- High Tech Start up by John L. Nesheim
- The Fifth Discipline by Peter Senge

Contact Us

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